



Translation

**The response of the German Government  
to the Commission Communication  
"Reforming the budget, changing Europe"**

**I. Key importance of the reform process to the Union's future**

In December 2005, the European Council called upon the Commission to "undertake a full, wide-ranging review covering all aspects of EU spending including the CAP, and of resources, including the UK rebate, to report in 2008/9".

The German Government welcomes the reform project launched by the European Commission with the public consultation process.

This project provides an opportunity to take a critical look at the traditional structures within the EU budget, evaluate policies, formulate the goals of European action more precisely and gear European instruments to address new challenges.

In other words, this is about the viability of the European Union's policies and their funding, focusing on the guidelines for the medium-term Financial Framework due to come into force after 2013.

We therefore regard this review as a reform project which will run for several years. We will thus follow developments in other partner countries closely, but will not support any decisions involving commitments in individual sectors with an impact on future financial frameworks before the completion of this process.

The title of the Commission Communication "Reforming the budget, changing Europe" names two challenges each of which the German Government believes should be taken seriously in its own right. Not every change Europe has to make in the light of future developments will require funding from the Community budget and not every aspect of budget reform will be able to change Europe. The reform project thus has the following two sides.

## **1. Changing Europe**

In a rapidly changing world and global economy, Europe also has to change in order to hold its own. Globalization requires that we promote Europe's competitiveness with a set of long-term growth-oriented measures and, in particular, that we facilitate its transformation into an innovative industrial and service-oriented society by strengthening education and our ability to innovate. Demographic change is compelling us to examine the impact of a new age structure on growth and employment as well as on various types of regions and their different infrastructure. Climate change will affect many areas of life and of the economy and should therefore be given due consideration in all relevant areas of policy. Climate protection, adapting to climate change and energy security require, among other things, an active external energy policy, increased energy efficiency and the use of sustainable energy sources which also take food security into account.

The internal market, the European Monetary Union and the Schengen area are just some examples of effective political action at European level which largely do without funding from the Community budget. Here the Union makes use of its most effective instrument: it creates the necessary legal provisions for the Member States and Union citizens.

In so far as financial instruments are indispensable, under the subsidiarity principle national funding takes precedence over Community funding as long as the purpose can be achieved just as well that way.

Therefore, if we want to change Europe so it can tackle the challenges it will face in future, we should focus on establishing a Community framework for action. The contribution of the Community budget can only be merely subsidiary and complementary in nature.

## **2. Reforming the budget**

At the same time, we have to reform the budget. Public funds are scarce. The EU's budget too cannot escape the resulting constraints. The expected drop in population together with rising life expectancy will place an ever greater burden on tax-payers and contributors to social security. In order to be prepared for this, ongoing measures aimed at consolidating all public finances must be rigorously continued. The principle of budgetary discipline therefore applies to all public budgets.

In the future, therefore, planning within the EU will have to be based on a limited financial framework. That means that the Union has to set priorities in its spending policies. In order to gain the long-term acceptance of tax-payers and contributors, we must also ensure that excessive net contributions are avoided in future EU financial systems.

The Union must use its resources efficiently. Impact assessment, systematic evaluation of budget-related policies and functioning control systems are the best means of ensuring the efficient use of European funds. However, evaluation can only be effective if every policy is allocated the right instruments, and objectives and standards are clearly defined for every instrument. Strategies on this have already been drawn up and they must be substantially extended. The reform process should make effective internal and external evaluation a priority in all spheres.

In addition to evaluation, control by the authorities and the public are of key importance for guaranteeing an efficient use of resources. Citizens must be able to see what Community budget funds are used for. Here, for example, the disclosure of recipients of funds, which has already been agreed upon, is a crucial step in that direction. However, even greater transparency for citizens would require data to be published centrally in accordance with uniform standards by the European Commission.

Moreover, the consistency and coherence of policies should be examined in the course of the reform process. This evaluation should also look at the suitability and adequacy of policies for dealing with the new challenges, for example those relating to the fight against climate change, energy security or the effort to maintain Europe's competitiveness in the face of global competition. Furthermore, measures aimed at reducing bureaucracy should be considered. They could lower administrative costs and thus considerably lessen the burden on companies and citizens. Another key measure could be greater use of European Investment Bank credits, which can have a high impact at a low cost.

In some cases, budget reform in response to global challenges affects policies anchored in the Treaty itself. Before these policies can be implemented, they have to be adapted to changed circumstances.

The Common Agricultural Policy has been undergoing reform for more than 15 years now. Its reform steps are geared to current and future challenges. The reforms have integrated food safety, consumer orientation, environmental and animal protection as

well as the strengthening of viable rural areas into the Common Agricultural Policy. The reform process geared towards more market orientation will have to continue and intensify after 2013 in order to meet the demands of society and changed conditions. Agricultural policy in the coming decades will be shaped first and foremost by the following factors: meeting the rising demand for food and non-food crops in a globalized world, creating and preserving vital and attractive rural regions, conserving biodiversity and adapting to the needs of climate policy. In addition, the increasing liberalization of markets continues to require measures to make the necessary structural changes in all sectors socially more acceptable.

In future, too, cohesion policy will have the task of addressing differences in levels of development within the Union. It will be some years before the poorest regions catch up in both economic and social terms. We are therefore in favour of focusing financial support as much as possible through cohesion policy instruments.

Other policy areas, such as research and development, education, health, transport policy, as well as the Union's justice and home affairs and external policies, are facing new challenges. These go hand in hand with the necessary investment in the creation of an innovative industrial and service-oriented society, the establishment of a single market for research, promotion of jobs and social cohesion, secure external borders in view of the rising migratory pressure, the development of the external dimension of European home affairs policy, for example in the Neighbourhood Policy, as well as the EU's role as global actor and partner. Europe will have to step up its efforts in these spheres. However, setting priorities always means also setting posteriorities.

Budget reform also affects the Union's own resources. Key principles such as stability, simplicity and fair allocation of national contributions have to be taken into account here. The current own resources system guarantees the Union adequate and stable financial resources. The German Government therefore believes there is no need for a new own resource. Instead, the composition of own resources should be further simplified in order to minimize the costs and bureaucracy needed to levy them. It seems that the best way to ensure fair contributions is the relative prosperity of Member States. However, the, in many cases unwanted, distributive effects on the expenditure side draw attention to the net balances which are a regular part of the debate on fair burden-sharing, especially among the public and in national parliaments. How excessive net balances can be reliably prevented on a long-term basis must be made an urgent priority in the reform process.

A balance must be struck between stability and flexibility in the budget. The stability of financial planning is of immense importance because it guarantees reliability and ensures budgetary harmony. The flexibility already incorporated into the Financial Perspective and in the annual budget procedure has proved to be adequate. It is important that ceilings are not redefined as spending targets.

The European value added is closely related to subsidiarity. In qualitative terms, under this principle there are policies which as Community-financed instruments work better than national efforts. In principle, the discussion on the value added of EU financing should be oriented towards the discussion on the value added of EU action as such. The review should be carried out on the basis of jointly determined criteria. Possible questions include:

- Do the Member States have a shared interest in the measure?
- Would the use of EU instruments result in lower costs?
- Can a critical (financial) mass only be achieved at Community level?
- Would action at EU level lead to a more efficient solution?
- Would action at EU level lead to greater scope for the exercise of a fundamental right or freedom?
- Does the nature of the problem require European cooperation because it is linked to an international phenomenon?
- Would a cost-benefit analysis lead to positive results?
- Are common rules necessary in order to prevent the fragmentation of the internal market or of the European area of justice?
- Are national measures more promising than European measures as a result of substantial, practical obstacles (e.g. language barriers, diverging administrative systems in the Member States)?

However, the European value added cannot be measured in quantitative terms, much less can it be operationalized when evaluating concrete policies. Therefore, the German Government does believe that a qualitative slant on the European value added can indicate whether a policy financed by the Community budget is likely to have a greater impact than national financing. As a means of assessing political plausibility the concept of European value added is certainly justified. Due to its

vagueness, however, the concept cannot provide a reliable, precise and viable answer to the question as to whether a policy should be financed from the Community budget. The German Government therefore believes that we should make greater use instead of the most precise possible objectives, impact assessments, cost-benefit analyses and evaluations.

Against the background of these general considerations, the following eight guidelines for review of the EU budget are of central importance to the German Government.

### **Eight guidelines for budget review**

#### **1. Limit spending, maintain budgetary discipline**

Public funds are scarce. The Union's current budget framework as well as the existing flexibility in the annual budget procedure have already proven to be adequate. Budgetary discipline fosters concentration on tasks which provide a clear value added compared to national efforts.

#### **2. Allocate national contributions fairly**

The distribution of the financial burden must be proportionate to the economic performance of Member States and the prosperity of their citizens. Excessive net burdens have a detrimental impact on the Union's standing among citizens and must therefore be avoided.

#### **3. Focus on the future**

The budget must focus more on financing new tasks in order to strengthen the Union's ability to master the challenges of the future. Innovation as well as greater competitiveness and sustainability are of central importance.

#### **4. Avoid a priori commitments**

The review over the next few years must establish which future trends and political priorities should be given priority. Before the end of this process, no a priori commitments can be made for individual spheres which would have an impact on future financial frameworks.

**5. Take subsidiarity seriously and pay attention to European value added**

Tasks which can be better dealt with at national level do not need to be addressed at European level. Not every challenge needs a financial response. In many cases, regulation can achieve more than spending policies. Where spending is necessary, national financing should take precedence over Community financing if the purpose can be achieved just as well that way.

**6. Improve the efficiency of EU policies, make use of evaluation**

The efficiency of policies can only be judged if goals and criteria are clearly defined. Existing and new policies must be evaluated in order to make precise adjustments possible. Functioning control systems are a cornerstone of efficient policies.

**7. Strengthen budgetary transparency**

In order to enhance comparability with the budgets of Member States, the Financial Perspective should in future be negotiated and drawn up in current prices. Furthermore, the disclosure of recipients of public funds by the European Commission means greater transparency for citizens.

**8. Simplify the own resources system**

The existing own resources system guarantees the Union the funds it requires. A new own resource is therefore not necessary. It would also create more problems than it would solve. However, some own resources involve too much bureaucracy. Germany is therefore in favour of concentrating on gross national income (GNI), preferably according to purchasing-power parity.

## **II. Individual spending policies within the EU budget**

### **1. Cohesion for growth and employment (sub-heading 1b)**

Europe's cohesion policy makes an active contribution towards reducing socio-economic disparities and towards ensuring that countries and regions in Europe have equal opportunities. Its further development must be aimed at helping to overcome underdevelopment, to strengthen growth and employment, especially in Europe's structurally weak regions, and to support social integration in all Member States. Subsidiarity and affordability must be respected. In the case of short-term transitional arrangements for regions which will no longer receive funding in future, equal treatment of the regions in question Europe-wide must be guaranteed, regardless of which Member State they are located in.

We are in favour of continuing to identify the least developed regions solely with the help of the tried and tested GDP per-capita criterion. Other economic indicators, such as unemployment and demographic development, are implicitly reflected in this indicator. The German Government rejects the idea of including purely geographical factors without a socio-economic reference as they are not appropriate. The creation of new criteria for the selection of the least developed regions could water down cohesion policy and diminish their efficiency.

Alongside the least developed regions, those regions already contributing towards the EU's competitiveness in a globalized world should be given targeted assistance in developing their competences.

This raises the question as to how a structural policy geared to optimizing growth can be reconciled with a policy geared towards minimizing disparities. On the one hand, efforts should focus strongly on Europe's least developed regions. In the interest of bringing about a shift in focus, however, all Member States should concentrate more on measures with the greatest possible impact in terms of growth and employment which also take demographic and ecological requirements into consideration. The Commission should put forward procedural proposals once experiences with the concept of earmarking have been evaluated.

As a modern Community policy, cohesion policy must also be equipped to deal with the new challenges. First of all, however, our task is to make the EU's structural funds more target-specific. The creation of additional eligibility criteria requires sound and convincing reasons. Given the new challenges, it should be examined to what

extent they can be tackled through Community policies as a whole – through legislative amendments or general policy processes – and additionally, if necessary, through the structural funds.

There are already numerous options within the framework of the current funding scheme for reacting to future challenges. For example, the European Fund for Regional Development (EFRD) lists both for the objective "convergence" and for the objective "regional competitiveness and employment" support for research and technological development, promotion of the information society as well as innovation and knowledge-based economy on the one hand, and the environment and risk avoidance on the other. Regions are thus already able to respond to the impact of climate change within the context of the EU structural funds. In view of the EU's ambitious climate protection targets, the advance of climate change and the increasing importance of research and development in a globalized world, this option should be used more in future. In order to ensure the consistence and coherence of EU policies, the measures funded within the framework of cohesion policy should be compatible with other policies, in particular the promotion of research and innovation as well as the EU's climate protection targets.

As for the foreseeable demographic change, which will undoubtedly have an asymmetric impact on the regions, cohesion policy can counter demographic-related negative processes by making regions more attractive, especially through growth and employment, thus creating incentives to live in the regions in question. However, the impact of population change on infrastructure, for example, also has to be taken into consideration.

The Treaty of Lisbon introduced the term "territorial cohesion". In Germany's view, this encompasses cooperation among the regions in the interest of cohesion. In anticipation of the territorial cohesion objective to be included in the future EU Treaty, the European Parliament and Council have already incorporated territorial cooperation into the existing legal framework. Furthermore, we should aim for better cooperation between public and private actors in the form of an enhanced partnership with those concerned on the ground so that the EU's territorial cohesion objectives can be realized with the administrative and governmental levels in question taking responsibility. It will not be necessary to single out the differences among the regions regarding the assessment of regional eligibility for assistance in the new Treaty, as this is already adequately dealt with in the framework of the horizontal funding principles.

The German Government is in favour of giving greater consideration to the Member States' absorption capacity when shaping the cohesion policy. In this context the macroeconomic experiences from a series of Member States during the last few years should be taken into account. Additional economic impetus from cohesion funds has on many occasions aggravated the overheating of the economy in those countries and increased the risk of low sustainability and competitiveness and, ultimately, even threatened the stability of the economy as a whole. Against this background, the Union issued recommendations on a tighter budget policy which, in turn, are in conflict with expenditure in full of EU funds made available.

The German Government supports the largely decentralized approach of the cohesion policy. In keeping with the principle of subsidiarity, this approach opens up the avenue of developing appropriate solutions to regional problems on the ground. The reform of Community policy which has taken effect with the current 2007-2013 programming period must first of all be assessed both with regard to its content and to its administrative changes. The German Government is in favour of closer coordination between individual policies and instruments in order to create synergies and to prevent duplicate funding. The coherence and consistency of the different funding instruments (e.g. structural fund, cohesion fund, globalization adjustment fund, fund for regional development, EFF) should be a focus in future programme assessments in order to identify weak points and to further enhance the efficiency of the allocation of public funds.

The aim of this approach is a European structural policy which is coherent, modern and affordable, which fosters cohesion efficiently in the interest of European value added but, at the same time, gives Member States sufficient leeway to set their own priorities.

## **2. Preservation and management of natural resources (heading 2)**

The European Commission's consultation paper focuses on the medium and long-term basic conditions, tasks and mechanisms of the Common Agricultural Policy, one of the oldest and most communitarized of all EU policies. The EU will continue to need a Common Agricultural Policy in order to maintain a diverse agricultural sector.

An attempt should be made to further simplify and harmonize the Common Agricultural Policy's (CAP) instruments. The efficiency and transparency and thus

also the acceptance of CAP among the public and in the sector would be considerably enhanced by this approach. The period until 2013 will be used to consolidate the reforms adopted and to adjust its instruments. This is the task of the CAP Health Check.

Conditions have changed for the agriculture sector. The demand for agricultural produce, both food and non-food crops, is growing at present. At the same time, the public debate on the justification of state intervention in the agricultural sector is also becoming more intensive.

In the post-2013 period, the CAP reforms initiated will be continued and its instruments will be adapted to deal with these new conditions. Thus, the elimination of traditional elements such as price support and production quota must continue and the spread of private-sector solutions to resolve production and revenue risks must increase. The development of the market must be taken into consideration when shaping market and revenue policy instruments.

Vital rural areas which make contributions to society, ranging from biodiversity to cultural diversity, are in Europe's interests. The objective of the promotion of rural areas is to conserve and develop rural regions in line with their different strengths and the opportunities they offer as living spaces and areas of economic activities.

This results in the following priorities for the future Common Agricultural Policy:

- Enhancing the international competitiveness and economic performance of rural regions as well as creating jobs within and outside agriculture, especially in innovative sectors (e.g. quality production, non-food crops);
- Adjusting technical and social infrastructure as required; developing innovative adjustment strategies for dealing with population drain and ageing; improving prospects for young people;
- Ensuring environmentally friendly and ecologically compatible land use as well as conserving and linking the environmental and recreation functions of rural areas.

The agricultural and forestry sectors offer an opportunity to combine raw material production and climate protection, thus helping to lessen the impact of climate change. The promotion of rural development also focuses on other economic, ecological and social aspects of rural areas beyond agriculture and concentrates on

the specific needs and problems of these regions. This includes climate protection, adjustment to climate change, the conservation of biodiversity and sustainable water management.

The EU's fisheries policy focuses on the sustainable use of resources. The priorities here are preserving economic and social prosperity in the fisheries areas, increasing the value added of fisheries and aquaculture produce, protecting and creating jobs as well as improving the quality of the environment in coastal areas.

Alongside the contribution of sectoral policies to climate and environmental protection, the EU programme Life+ is a key contribution towards protecting natural resources, preserving biodiversity and advancing climate protection across all sectors and borders.

### **3. Other policy areas**

Other policies concern in the broadest sense the consolidation and development of Europe's potential for innovation in global competition, as well as the Union's security, both within the EU and in relation to the outside world. In the traditional breakdown of the Community budget this relates to the headings 1a, 3a and b as well as 4.

#### **(a) Competitiveness for growth and employment (sub-heading 1a)**

The European Union's capacity to transform itself into an innovative industrial and service-oriented economy largely hinges on the level of education, creativity and inventiveness of its citizens, as well as the successful translation of research findings into new products and services. In contrast to the United States, China, India and other competitors, the European Union still does not have a genuine European education and research area, even 50 years after it was founded.

Although this remains primarily a task for Member States, there is a historic opportunity to improve key conditions for the creation of a European education and research area. This will require the setting of further priorities aimed at fostering education, research and innovation. European research promotion and European education programmes are a meaningful and necessary complement to national efforts and should be stepped up.

In light of the provisions of the Lisbon Treaty, the European Research Area will be of increasing importance. This includes the EU Research Framework Programme, the common financing instruments such as ERA-Nets and national programmes. A meaningful balance must be struck between these elements, with attention being paid to the principle of subsidiarity. This includes ensuring sufficient continuity throughout the period in question for European instruments.

Other central aspects which will require more attention in future are: promoting mobility in the education field, which will further enhance adaptability, motivation and skills of European citizens. Measures with third states can help us increase Europe's attractiveness for young talents. What is more, the funding of projects in the education sector will help improve the quality of Europe's education systems.

In our view, one new priority is sustainable European research in the energy and environmental spheres. Research on improving energy efficiency, on developing sustainable energy technologies and on increasing the use of renewable energies should be paid special attention.

In the transport sector, globalization and demographic change will lead to steady growth in transport and to changes in the population's mobility needs. The resulting demands on guaranteeing the mobility of persons and goods in keeping with the Community's objectives in the fields of climate and environmental protection must be taken into account.

Projects not only have to be politically plausible but also withstand a cost-benefit analysis which includes external costs. Against this background, we advocate a thorough revision of the guidelines for the Trans-European Networks (TEN), as envisaged by the Commission. First of all, this means that projects which have already been financed and completed have to be evaluated and future planning should be oriented towards forecasts on the development of transport in Europe. Funding must be concentrated where the greatest transport needs lie in Europe and that is not necessarily on cross-border routes.

**(b) Citizenship, freedom, security and justice (headings 3a and 3b)**

European justice and home affairs policy is still relatively new. It was upgraded in the Lisbon Treaty and this will have a real impact in view of the growing importance of this sphere, partly due to external influences (migration, terrorism).

This applies in particular to the following areas:

- The fight against terrorism as a means of countering radicalization both within and outside the Union.
- The fight against organized crime, especially cross-border crime.
- Migration and social integration; organization of work migration, support for circular migration, integration programmes for migrants.
- To complement these efforts, the EU must step up its activities at its external borders (further development of the e-borders concept, evaluation and enhancement of Frontex, use of new technologies, formations of pools in order to increase the Community's capacities, development of networks).
- E-justice (cross-border electronic and electronically-assisted proceedings, electronically accessible register, exchange of data between judicial authorities, e-justice portal).

It should be possible to use Community budget funds to finance the setting up and operation of databases with clear parameters, which can be used to help achieve the purposes mentioned above.

Separating European justice and home affairs policy from external policy will be more difficult in future, particularly in the sphere of the Neighbourhood Policy as the external dimension of European justice and home affairs policy and European external policy on neighbouring regions overlap to an ever greater extent. Securing the external borders, for example, would be an impossible task without gradual legal approximation in neighbouring countries as envisaged by the European Neighbourhood Policy. The Union must react to this unavoidable overlap by ensuring that in future the promotion of projects which serve the security and stability of the Union are better coordinated within and beyond its borders.

EU consumer policy as a Union citizenship programme is necessary because the internal market cannot function without the confidence of consumers and companies. It also provides impetus for competition, innovation and economic development and supports consumer interests in an increasingly globalized world. Central goals of the EU's consumer policy are ensuring a high level of protection and enhanced transparency for consumers, as well as for cross-border issues, e.g. through the European Consumer Centres Network.

Ensuring a high level of protection in the health sector is also provided for in the Treaty. Community measures which systematically complement and interlink those of the Member States, which are primarily responsible for health protection and care – e.g. cross-border coordination aimed at preventing and combating infectious diseases – also function as a competitive advantage and positive location factor. Synergies with other Community policies should be the aim here.

#### **(c) EU as a global player and partner (heading 4)**

The Union's external relations will be increasingly marked by the growing challenges which the responsibilities of a global player entail. This applies, for example, in the spheres of neighbourhood and enlargement policy, development cooperation, international environmental and external energy policy, as well as the Common Foreign and Security Policy.

Taking into account the EU's absorption capacity as well as outstanding impact assessments by the Commission, it must be examined whether and, if necessary, how budget funding for the accession of new countries can be found within the current framework even though the exact timeframe for admitting new members to the Union cannot be predicted at present.

In the sphere of the Neighbourhood Policy, little experience has been gained so far with the still new ENPI. However, the growing importance of the external dimension of European justice and home affairs policy means that the demand for support in legal approximation and cooperation in the security sphere in the Union's direct vicinity will increase in the long term. There will be ever more interaction between the spheres of neighbourhood and protection of external borders (heading 3), not least in view of the migration problem.

Development cooperation falls under the Union's commitment to the Millennium Goals. As the world's largest donor of development cooperation, the EU must continue to make a substantial contribution towards poverty alleviation. The EU's goals in the field of international climate protection and the conservation of biodiversity also have to be taken into consideration. The European Council's goal of deploying 90% of funds for ODA eligible measures remains important.

The European value added of the Union's development cooperation could be further enhanced if the funds were to be concentrated more than hitherto on certain regions

and sectors. The least developed countries (LDCs) and fragile states should be given priority.

The Common Foreign and Security Policy – of which the European Security and Defence Policy is part – has gained considerably in intensity and scope during the last few years. The EU's crisis management, which was very successful in the past, remains a growing venture. The Lisbon Treaty will create the institutional prerequisites for this, among other things by establishing a viable European External Action Service. The expected future tasks in the field of civilian crisis management are particularly demanding.

Furthermore, the German Government believes that we should aim to define tasks and instruments more clearly. A clear distinction between the instruments will also increase the efficiency and transparency of the EU budget.

### **III. The revenue side and the own resources system of the EU budget**

The revenue side of the EU budget should be based on the following central principles: stability, simplicity and administrative cost-effectiveness as well as a fair allocation of contributions.

The EU own resources system has always ensured adequate and stable revenue until now. The EU budget therefore has no revenue problem. Stability is guaranteed.

The own resources system should, however, be further simplified as quickly as possible as it is very bureaucratic in its current form. The value added tax component in particular, but also the traditional own resource, incur excessively high administrative costs. This suggests it would be best to eliminate these two own resource components in order to create a simplified own resources system. The European Commission, too, has considered radically simplifying the own resources system by ensuring greater or even complete funding through the GNI own resource.

Furthermore, the simplified own resources system must – based on the economic performance of the Member States – be fair in terms of contributions. As long as unwanted distributive effects and distortions on the spending side and thus an excessively high net burden for individual Member States cannot be ruled out, an adequate and effective correction mechanism on the revenue side is absolutely necessary. This should preferably take the form of a general correction mechanism.

In terms of financing source(s), the own resources system should therefore be designed to react easily to changed circumstances on the spending side.

The German Government believes that a revenue system largely based on one single GNI own resource and complemented by a preferably systematic correction mechanism for reducing the excessive burden on net contributors, best meets the four central requirements.

However, the German Government does not believe there is any need for new own resources. They would create more problems than they would solve. That applies in particular to the introduction of an EU tax or a new own resource similar to a tax:

The hope some have that the introduction of an EU tax/new own resource could end the net contributor debate will not materialize. Taxes would always be levied by the administrative bodies of the Member States and channelled into the EU budget; the revenue would therefore always be attributable to individual Member States. Even if there was a new source which was not attributable to individual Member States, the debates about sharing the (net-)burden would shift to the spending side and thus reinforce the trend towards an inefficient use of funds (common pool problem).

All options for an EU tax discussed to date would result in a substantial redistribution between the Member States compared to the current system. The discussions about the need for correction would thus even be intensified. What is more, the fact that the current own resources system establishes a direct link between national budgets and the Community budget is a key element of the budgetary discipline we all aspire to. An EU tax would either break or limit this useful link.

If Member States' contributions towards the EU budget were to be coupled to GNI, this would reflect the wide range of tax system preferences among European citizens much better than a uniform EU tax.

All in all, an additional new own resource would make the EU revenue system more complex and, in the view of the German Government, is not fully compatible with the abovementioned criteria. Instead, a purely GNI-based system with a correction mechanism would satisfy the requirements mentioned above and could be implemented while leaving the existing systems largely intact. In order to keep the redistribution volume of a correction mechanism relatively small, it should also be examined whether the contributions of the Member States should not be converted to "GNI at purchasing-power parity".

#### **IV. Administrative aspects of the EU budget**

The seven-year financial planning period has proved to be a guarantor of financial stability. It is true that valid arguments for shortening the budgetary period to five years have been put forward in the current debate about synchronizing the mandates of the European Parliament and Commissions with the budgetary period – especially to the effect that this would enable each European Parliament to decide a Financial Perspective during its legislative period. However, in view of the fact that in particular regional promotion programmes take a while to get off the ground, a shorter period would have a detrimental impact on the efficiency of drawing up programmes as planning security is greater if the planning period is longer.

The ceilings of the Financial Perspective were decided to date in terms of real prices of a given reference year. This conceals the actual budget growth at European level and makes it more difficult to compare it to the public budgets of Member States. The Financial Perspective should therefore be negotiated and drawn up in current prices. This is all the more easy because a fixed inflator of 2% p.a. was already agreed upon in the current Perspective.

The German Government advocates, also in view of the critical stance of the Bundestag and Bundesrat, a restrictive use of agencies. However, a differentiation has to be made here between executive and regulatory agencies.

The use of executive agencies is a way – which, however, has to be examined on a case-by-case basis – of ensuring that administrative tasks are carried out cost-effectively and efficiently within the framework of new, complex Community programmes of limited duration. The Commission's political responsibility, especially with regard to its executive function, must be guaranteed in the process.

The largely independent regulatory agencies can in some cases offer a European value added through greater efficiency and transparency. The establishment of a regulatory agency must, however, be linked to strict financial, administrative and political criteria. It would be desirable to create a greater degree of transparency for the Community agencies active in very different policy areas by developing comparable indicators. The Commission is requested to evaluate the agencies on a regular basis, to examine compliance with the criteria before establishing new agencies and to inform the Council and the European Parliament of the results.